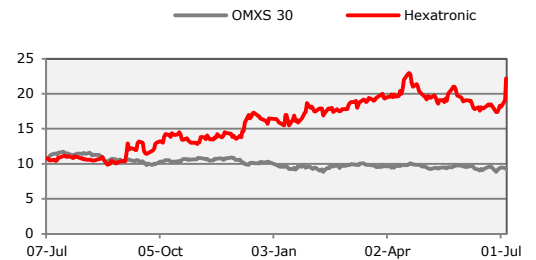


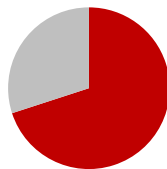
Summary
Hexatronic (HTRO)
Investing to fuel growth

- Hexatronic's report for the third quarter of the split financial year of 2015/16 was strong and exceeded our expectations, primarily on the revenue levels.
- The organic growth amounted to an impressive 42% during the quarter. Hexatronic has invested heavily in production personnel to be able to handle the substantial demand; this dampens the current profitability levels but enhances the prospect of a future margin expansion.
- We have adjusted our growth forecast because of; strong revenue momentum and the acquisition in New Zealand. The new assumptions generate an increased fair value estimate, in Base-case, of 27 (25) SEK per share.

List: 734 MSEK
 Market Cap: 734 MSEK
 Industry: Telecommunication Equipment
 CEO: Henrik Larsson-Lyon
 Chairman: Goran Nordlund

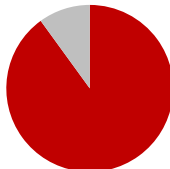

Redeye Rating (0 – 10 points)

Management



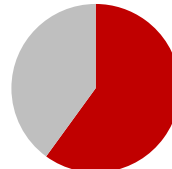
7.0 points

Ownership



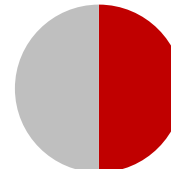
9.0 points

Profit outlook



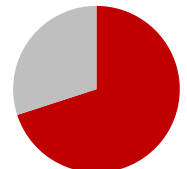
6.0 points

Profitability



5.0 points

Financial strength



7.0 points

Key Financials

	13/14	14/15	15/16E	16/17E	17/18E
Revenue, MSEK	497	627	868	1,036	1,181
Growth	601%	26%	38%	19%	14%
EBITDA	60	64	69	108	142
EBITDA margin	12%	10%	8%	10%	12%
EBIT	55	50	51	83	106
EBIT margin	11%	8%	6%	8%	9%
Pre-tax earnings	54	49	48	80	102
Net earnings	41	37	37	62	80
Net margin	8%	6%	4%	6%	7%
Dividend/Share	0.00	0.00	0.00	0.00	0.00
EPS adj.	1.70	1.08	1.02	1.70	2.18
P/E adj.	11.2	10.1	21.4	12.8	10.0
EV/S	0.9	0.5	0.9	0.7	0.6
EV/EBITDA	7.2	5.3	11.2	7.1	4.9

Share information

Share price (SEK)	21.8
Number of shares (m)	33.7
Market Cap (MSEK)	734
Net debt (MSEK)	39
Free float (%)	30 %
Daily turnover ('000)	400

Analysts:

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Important information: All information regarding limitation of liability and potential conflicts of interest can be found at the end of the report.

Redeye Rating: Background and definitions

The aim of a Redeye Rating is to help investors identify high-quality companies with attractive valuation.

Company Qualities

The aim of Company Qualities is to provide a well-structured and clear profile of a company's qualities (or operating risk) – its chances of surviving and its potential for achieving long-term stable profit growth.

We categorize a company's qualities on a ten-point scale based on five valuation keys; 1 – Management, 2 – Ownership, 3 – Profit Outlook, 4 – Profitability and 5 – Financial Strength.

Each valuation key is assessed based a number of quantitative and qualitative key factors that are weighted differently according to how important they are deemed to be. Each key factor is allocated a number of points based on its rating. The assessment of each valuation key is based on the total number of points for these individual factors. The rating scale ranges from 0 to +10 points.

The overall rating for each valuation key is indicated by the size of the bar shown in the chart. The relative size of the bars therefore reflects the rating distribution between the different valuation keys.

Management

Our Management rating represents an assessment of the ability of the board of directors and management to manage the company in the best interests of the shareholders. A good board and management can make a mediocre business concept profitable, while a poor board and management can even lead a strong company into crisis. The factors used to assess a company's management are: 1 – Execution, 2 – Capital allocation, 3 – Communication, 4 – Experience, 5 – Leadership and 6 – Integrity.

Ownership

Our Ownership rating represents an assessment of the ownership exercised for longer-term value creation. Owner commitment and expertise are key to a company's stability and the board's ability to take action. Companies with a dispersed ownership structure without a clear controlling shareholder have historically performed worse than the market index over time. The factors used to assess Ownership are: 1 – Ownership structure, 2 – Owner commitment, 3 – Institutional ownership, 4 – Abuse of power, 5 – Reputation, and 6 – Financial sustainability.

Profit Outlook

Our Profit Outlook rating represents an assessment of a company's potential to achieve long-term stable profit growth. Over the long-term, the share price roughly mirrors the company's earnings trend. A company that does not grow may be a good short-term investment, but is usually unwise in the long term. The factors used to assess Profit Outlook are: 1 – Business model, 2 – Sale potential, 3 – Market growth, 4 – Market position, and 5 – Competitiveness.

Profitability

Our Profitability rating represents an assessment of how effective a company has historically utilised its capital to generate profit. Companies cannot survive if they are not profitable. The assessment of how profitable a company has been is based on a number of key ratios and criteria over a period of up to the past five years: 1 – Return on total assets (ROA), 2 – Return on equity (ROE), 3 – Net profit margin, 4 – Free cash flow, and 5 – Operating profit margin or EBIT.

Financial Strength

Our Financial Strength rating represents an assessment of a company's ability to pay in the short and long term. The core of a company's financial strength is its balance sheet and cash flow. Even the greatest potential is of no benefit unless the balance sheet can cope with funding growth. The assessment of a company's financial strength is based on a number of key ratios and criteria: 1 – Times-interest-coverage ratio, 2 – Debt-to-equity ratio, 3 – Quick ratio, 4 – Current ratio, 5 – Sales turnover, 6 – Capital needs, 7 – Cyclicity, and 8 – Forthcoming binary events.

Organic growth continues

The reported revenue level for the third quarter of the split financial year was above our expectations driven by a strong organic growth. The margin was slightly below our estimate which was explained by considerable investment in production staff, something we regard as positive.

The reported revenue level for the third quarter of the split financial year was above our expectations driven by a strong organic growth.

Estimate vs. Outcome				
MSEK	14/15 Q3	15/16 Q3E	15/16 Q3A	Diff
Net sale	180	232	257	11%
other income	1.4		1.0	
COGS	97	130	151	17%
Gross Profit	85	102	107	5%
SG&A	68	74	81	9%
EBITDA	17	28	26	-6%
Net sale Growth %		28%	43%	
Gross Profit margin %	47%	44%	42%	
EBITDA margin %	9.2%	12.0%	10.1%	

Source: Hexatronic Group & Redeye Research

Hexatronic announced further growth investments to increase their production capacity for fiber cables.

The company reported a revenue level exceeding our expectations and grew organically with roughly 42% year over year. The primary reason for the exceptionally high growth in revenues is a strong market for fiber investments and effects from the earlier market investments conducted by Hexatronic throughout the last two years. During the quarter the company hit the capacity limit and could have grown at an even higher rate, as such Hexatronic announced further growth investments to increase their production capacity for fiber cables.

Both we, and also the company, had anticipated slightly higher margins. However the substantial organic growth comes at a cost; during the quarter Hexatronic hired 21 employees, mostly for production, and it 2-3 months before these new hires reach their full production potential. The cost levels were also affected by the fact that Hexatronic had to buy finished duct during Q3, this won't be an issue in the coming quarters as the new and upgraded production line for duct are now finished and operational.

During the quarter Hexatronic also signed a contract with one of the larger North American telecom operators

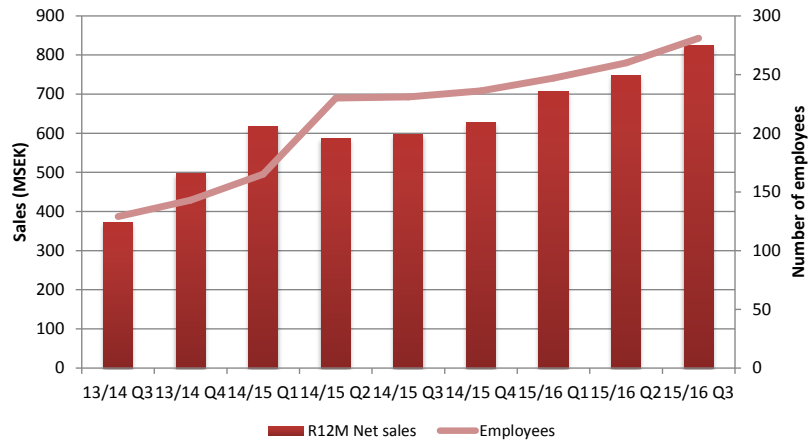
The company is experiencing a tailwind in the newly established market regions such as the USA, Norway and the UK. During the quarter Hexatronic also signed a contract with one of the larger North American telecom operators, this contract might prove to be highly valuable for the company in the future.

Investing for growth, margin expansion expected

Hexatronic increased their staff count during the quarter to 281 employees. Most of these new workers are production personnel. We see this hiring as an investment for future growth as the company needs to increase their production capacity to be able to handle the substantial demand.

We see this hiring as an investment for future growth

R12M Net sales and staff count

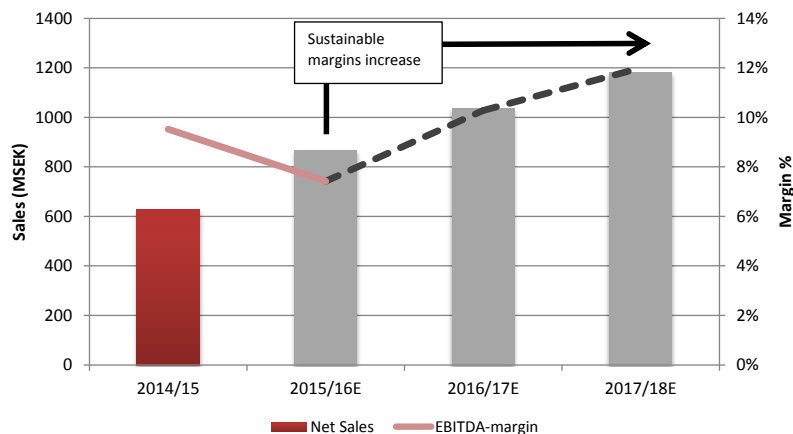


Source: Redeye Research

Hexatronic also announced that they would conduct an SEK 15m growth investment to increase the capacity for fiber cable production. The new production lines are expected to be finished by the end of 2016. The investments show the company’s confidence in a continued high demand.

The completed investments in both employees and machinery for production will create a possibility for margin expansion as the operational leverage kicks in, i.e. after the conducted investments, Hexatronic should be able to handle substantially larger volumes (higher sales levels) with relatively sustained costs (→increased margins). This, in combination with more sales abroad, will lead a margin expansion in the coming years.

Net sales and EBITDA-margin



Source: Redeye Research

Next stop New Zealand

On the 24th of May Hexatronic announced that they signed an agreement to acquire Ericsson's fiber cable and duct business in New Zealand. The purchase price amounts to approximately 30 MSEK and is funded through the use of acquisition credit.

The new company will be named Hexatronic New Zealand Ltd and act as an independent subsidiary of the Group

The new company will be named Hexatronic New Zealand Ltd and function as an independent subsidiary of the Group. All staff currently employed will be offered to stay. Hexatronic NZ is expected to contribute to the annual sales of roughly SEK 60m with an EBITDA margin in the region of 10% i.e. The acquisition multiples for the deal amounts to EV/S of 0.5x and EV/EBITDA of 5.0x, compared to current valuation levels of Hexatronic the price looks like a bargain.

Acquisition multiples compared to current (2015/16)					
	EV	Net sales	EBITDA	EV/S	EV/EBITDA
New Zealand	30	60	6	0.5x	5.0x
Hexatronic Group	680	828	68	0.8x	10.1x

Source: Redeye Research

The acquisition multiples for the deal amounts to EV/S of 0.5x and EV/EBITDA of 5.0x

An important factor for a smooth takeover is the fact that the current head of operations at the Ericsson fiber and cable branch in New Zealand, John Witkowski will continue as president for the Hexatronic NZ. The NZ company will broaden their product offering with the whole Hexatronic system of products, including the highly popular Viper cable family. We expect that the expanded portfolio of goods will enhance the sales levels for the company in the coming years. The acquisition was finalized by early July 2016; as such Hexatronic's Q4 2015/16 will be positively affected to a minor degree, and fully consolidated during the whole of 2016/17.

Above all the acquisition shows that Hexatronic is allocating their capital to regions where they see long-term growth opportunities

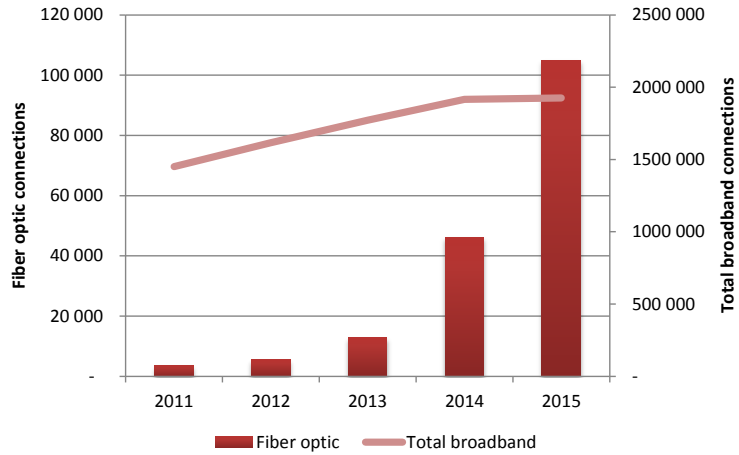
We find the NZ company as a likely entry point for Hexatronic to the attractive Asian/Pacific market for FTTH. Above all the acquisition shows that Hexatronic is allocating their capital to regions where they see long-term growth opportunities. This is the second acquisition made abroad, and we expect to see more in the coming years as Hexatronic increases their international presence further.

A market in expansion

The market for FTTH in New Zealand, like in many countries, is currently in an expansionary phase. Hexatronic expects to see a strong market for many years. During 2015 fiber optic broadband subscribers continued to grow at a high pace. The number of fiber-based Internet connections has more than doubled to over 100,000 in 2015, from 46,000 in 2014. The fiber subscribers only account for roughly 5% of the total broadband connections in the country, so the growth prospects are significant.

The market for FTTH in New Zealand, like in many countries, is currently in an expansionary phase

Fiber optic connections and total broadband, NZ

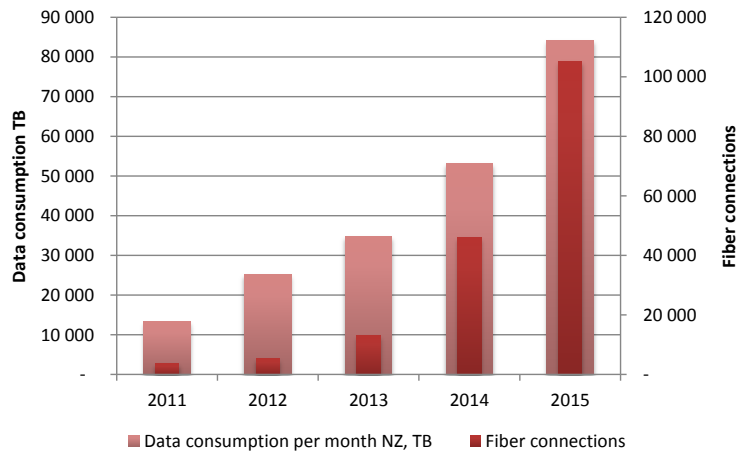


Source: Statistics New Zealand

The correlation between the increase in fiber subscribers and the data consumptions is quite clear. In New Zealand people used over 84,000 terabytes in the month of June 2015, corresponding to an increase of 143% from June 2013. Monthly data use excludes data used by mobile phone Internet connections. People used an average of 45GB per household in June 2015. Like in most regions, the increase in data is likely related to growth in video and music streaming.

Like in most areas the growth in data is probably related to increase in video and music streaming

Monthly data usage and fiber connections NZ

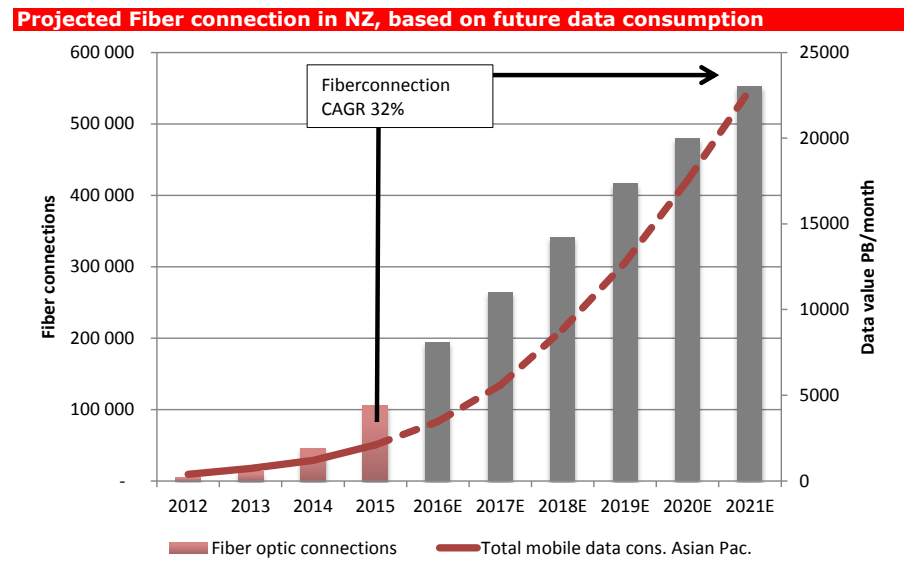


Source: Statistics New Zealand

Estimated annual growth rate of 30%

At Redeye we believe that the market for FTTH/x (Fiber to the home) in New Zealand will grow at a continued high rate for many years, primarily driven by the increased usage of data due to the changed consumer habits. We have based our projects on the forecast of mobile data consumption presented by Ericsson in their Mobility Report 2016 for the Asian and Pacific region. By 2021 we estimate that 550 000 households will have fiber connections, i.e. a fiber penetration rate of roughly 25%, this corresponds to an estimated CAGR of 32% over the coming six years.

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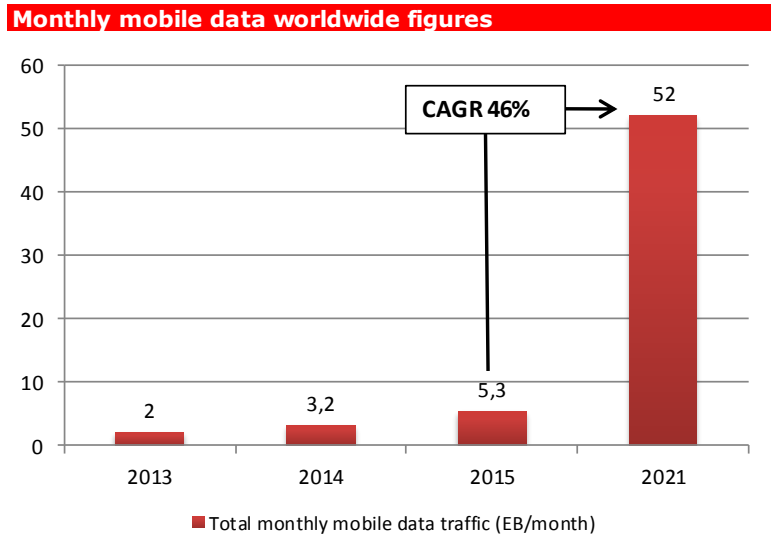
Source: Statistics New Zealand, Ericsson Mobility report 2016, Redeye Research

We want to highlight that we have discussed the growth of fiber connections, new subscriptions, which is different from the market where Hexatronic have operations, fiber optic solutions, and equipment. We expect to see a high correlation between the equipment market and fiber subscription growth. We anticipate the market for fiber optic equipment market in New Zealand will experience annually growth rates exceeding 25% in the coming years.

The data consumption will grow rapidly

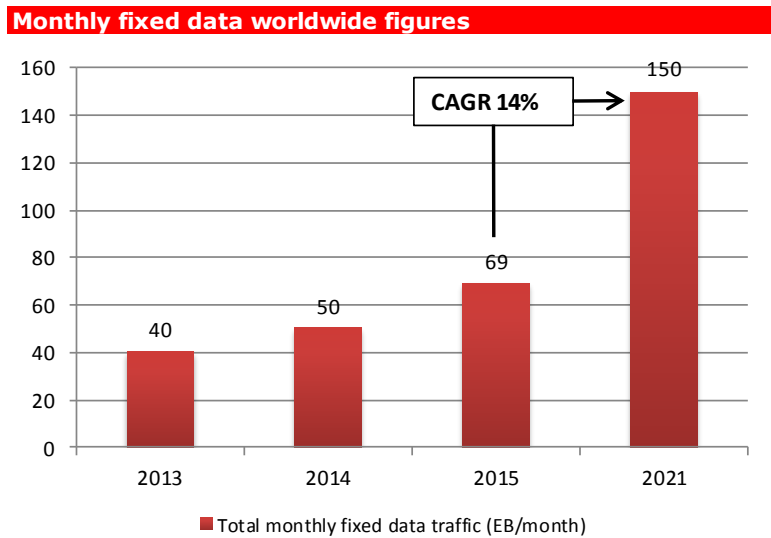
We regard the market where Hexatronic operates (fiber optical communication equipment) as strong. As discussed earlier, the growth in the industry is affected by the fact that we today consume more and more data due to the usage of smartphones, streaming services like Netflix, IP-TV and clouding software/solutions. The increased data usage directly affects the need for investment in the fiber optical infrastructure in almost all the regions in the world. Ericsson, in their mobility report from 2016, estimates that the mobile data traffic will grow from the current level of 5.3 EB/month to about 52 EB/month, this corresponds to an annual CAGR of 46%.

High growth in used data capacity is expected



Source: Ericsson mobility report 2016

Data usage of fixed data is also anticipated to grow substantially over the next five year to a total of 150 EB/month from the current level of 69 EB/month.

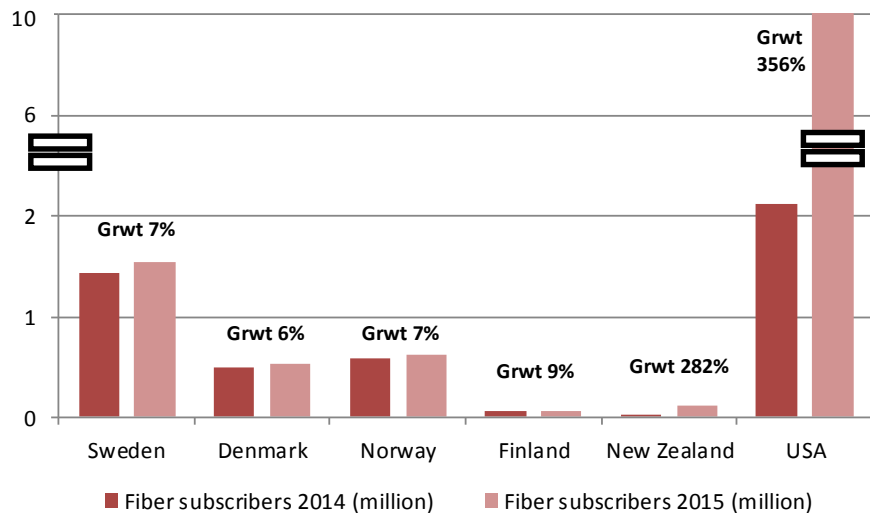


Source: Ericsson mobility report 2016

Continued strong fiber growth

As the expected demand for data capacity will increase at a very high rate so will also the need for investment in the fiber optical infrastructure on a worldwide basis. Below is a diagram showing the number of fiber subscribers in 2014 and 2015 and the growth rates in the countries where Hexatronic have operations, UK excluded.

Fiber subscribers and growth 2014-2015



Source: OECD & Redeye Research

Huge upcoming investments in fiber infrastructure

Hexatronic has most of their revenue generated from the Scandinavian region, in these countries, the number of fiber subscribers grew by 7-9% during 2015. The market for fiber optic equipment is expected to grow 10-12% on an annual basis during the next 5-8 years. Swedish telecom operators have announced planned investments in the fiber infrastructure for about SEK 30 billion during the next five years. Despite the large upcoming investments in the Swedish fiber infrastructure, the Scandinavian countries have amongst the most developed infrastructures in the world. The true growth prospects lie in less developed countries such as USA, UK, New Zealand and other large Western Europe economies.

The growth in new market regions for Hexatronic, such as New Zealand and the USA, grew at substantial rates during 2015. We believe both markets will experience a massive uptake in installations as both countries have a low fiber penetration rates.

Q4 estimates – A strong quarter to come

In the report, Hexatronic stated that the order intake, at the beginning of June, was 31% higher compared to the same period last year. The high order intake should be a good indicator of a strong Q4 to come. We expect that the absolute revenue level will be lower than Q3, because of the summer holidays, but higher than the low season of Q2.

The high order intake should be a good indicator of a strong Q4 to come

For the next quarter, we expect to see a continued high organic growth. The acquisition of OpticReach and Hexatronic NZ (consolidated for 2 months) will also contribute to the growth rate. We expect revenues in the region of 214 MSEK, i.e. 25% growth year over year.

214 MSEK in revenue expected for the next quarter

Next quarter estimates		
MSEK	14/15 Q4	15/16 Q4E
Revenues	171	214
EBITDA	18	19
EBIT	14	14
Revenue Growth		25%
EBITDA margin	10.8%	9.0%
EBIT margin	8.3%	6.5%

Source: Redeye Research

The employee investments conducted during the last quarter will lead to a larger headcount and affect the margins, compared to Q3, negatively. However, we regard these investments for future growth as clearly positive and do not find the somewhat lower margins as worrisome. We anticipate an EBITDA in the region of SEK 19m corresponding to and margin of 9%.

Full year revisions

We have adjusted our growth assumptions upwards based on the considerable growth momentum in revenues and the NZ acquisition and Overall we expect to see a ramp-up of international revenue the coming years leading to a better capacity utilization of the producing units of Hexatronic and generating higher sustainable margins.

Forecast adjustments			
MSEK	15/16E	16/17E	17/18E
Revenues			
Old	828	954	1 087
New	868	1036	1 181
% change	4.9%	8.6%	8.7%
EBITDA			
Old	68	102	125
New	69	108	142
% change	2%	6%	13%
EBITDA-margin			
Old	8.2%	10.7%	11.5%
New	8.0%	10.4%	12.0%

We have adjusted our estimates upwards

Source Redeye Research

Long-term, we see strong growth prospects for Hexatronic with the aforementioned market trend and future needs of investment in fiber infrastructure.

Our fair value is unchanged at 27 SEK per share in our Base-case

Valuation

Our estimated fair value, in Base-case, per share is adjusted upwards to 27 (25) SEK per share due to increased growth assumptions. In our valuation, we are using a dilution effect from the outstanding stock options. We believe that Hexatronic will experience significant growth in many years to come driven by the structural growth of the market for fiber infrastructure. We expect that the company will expand to new growth regions, and therefore increase their sustainable margin level. We estimate a CAGR of sales in the region of 13.2% between the years 2014/15-24 and an average EBITDA-margin of 11.5% during the period. Our valuation implies and EV/EBITDA exit multiple of 6x and an ROIC in perpetuity close to our estimated WACC, which we find as a conservative assumption to make.

Base-case			
Assumptions:	2014/15-24	DCF-Value	
CAGR Sales	13.2%	WACC	10.3%
EBITDA-margin	11.5%	Present value of FCF	349
Average RONIC	32%	Present value of Terminal Value	632
Average Reinvestment rate	65%		
Terminal		EV	981
Terminal Growth of FCF	5.5%	Net debt	2
Reinvestment rate in perpetuity	51%	DCF-value	984
RONIC in perpetuity	9%	Value per share	27
Implied EV/EBITDA Exit multipel	6x	Today's share price	22
		Margin of saftey	21%

Source: Redeye Research

Our estimated fair value implies a potential/margin of safety of 21% from today's share price levels. We see a period of strong growth in the coming years and increasingly attractive long-term prospects due to the international expansion.

Clear valuation discrepancy to international peers

Our Base-case fair value implies an EV/EBIT 2015/16E multiple of about 14.4x. Compared to international peers this is still conservative. The peer group consisting of fiber optical equipment companies trade at a median of EV/EBIT16E of 25X. Hexatronic should have a small cap discount but not as large as today's valuation levels. We believe multiple above 20.x, like our Base-case implies, is motivated given the company's attractive future growth prospects.

Peer valuation, international fiber optical companies						
Company	Currency	EV	EV/SALES 16E	EV/EBIT 16E	Sales CAGR 15-18E	EBIT % 16E
Fiberhome Telecom Tech CO-A	CNY	28 716	1.8x	31.3x	23%	6%
Clearfield INC	USD	217	3.1x	32.9x	15%	9%
O-net Communications Group	HKD	2 160	1.5x	18.6x	26%	8%
Huber & Suhner AG-REG	CHF	898	1.2x	19.1x	4%	6%
Average		7 998	1.9x	25.5x	17%	7%
Median		1 529	1.6x	25.2x	19%	7%
Hexatronic Group at Base-case	SEK	730 981	0.8x 1.1x	14.4x 19.4x	23%	6%

Source: Bloomberg & Redeye Research

The investment case of Hexatronic

As we have discussed before, Hexatronic is present in a growing industry, fiber optical communication equipment. The growth in the industry is affected by the fact that we today consume more and more data due to the usage of smartphones, streaming services like Netflix, IP-TV and clouding software/solutions. The increased data usage directly affects the need for investment in the fiber optical infrastructure in almost all the regions in the world.

Strong structural market growth drives the case

We find it likely that Hexatronic will be able to capitalize on the aforementioned market trends, as the company is one of the most dominant players in the Nordic region with a competitive product offering. As acquisition is a part of Hexatronic's growth strategy. We find it likely that Hexatronic wants to acquire companies outside of Nordic, primarily for their international customer base. A stronger international presence will be a key to nurse future growth when the large investments in the Nordic region start to mature.

Certification by Skanova opens up a large market

The main acquisition conducted by the company was when Hexatronic acquired Ericsson's fiber optical cable factory in Hudiksvall (Sweden), which is the largest subsidiary of the group. The acquired customers were primarily other units in the Ericsson group. One of the key challenges, since the large acquisition, for the company, have been to reverse the sales force focus to customers outside the Ericsson group while also maintaining previous customers they have acquired through the acquisition. During 2014/15 Hexatronic invested in both sales and marketing and we find it likely that the company will reap the benefits from these investments in the coming years. Hexatronic offers products throughout the whole fiber infrastructure and sells these with a system based approach, compared to their competitors that mostly sell one based product solutions. We find that this system based selling is a competitive advantage and will likely enhance the growth and profitability prospects of the company. Almost all of Hexatronic's products are now certified by Skanova (compared to the time of the acquisition), which is Sweden's largest wholesaler of network capacity and a subsidiary to TeliaSonera. The Skanova certification opens up a large part of the market that Hexatronic previously haven't been able to focus on; we see this as an untapped growth opportunity and likely one of the reasons of because of the strong growth during Q1.

Despite being presented in a growth industry with good prospect for future growth, having healthy margins, good return on capital and with a competent management team the valuation of Hexatronic indicates low expectations of future value creation. The primary reasons we see for the low embedded expectations is;

- **Short historical financial history** – We find it likely that most investors have a hard time to track and understand the financial

history of the company. Hexatronic has completed a number of acquisitions during a quite short time-frame making it hard for investors, with limited time on their hands, to estimate sustainable profitability levels. We see this as an opportunity for a more savvy investor that digs through the numbers. In our view, current sustainable profitability levels are satisfying but also likely increasing due to top-line growth.

- **Small/nano-cap** – Hexatronic is still a small company. This, according to us, creates an opportunity as Hexatronic might be overlooked by the investment community, creating a more likely disparity between true fundamental value and market capitalization.
- **Limited market communications** – Hexatronic has had an internal focus to manage the acquisitions and to structure the group that has led to a low degree of communications with the market. The poor communications have affected the valuation of the company negatively, in our view, in some situations when increased communication would have been desirable. We believe that management has learned from this experience and that they will enhance their communication with the market going forward.

An opportunity for the savvy investor

All these effects increase the likelihood of mispricing, and opportunity for the savvy investor.

Hexatronic: Fair value range



Hexatronic currently trades 21% of our Base-case. The share has had a strong run from the low level of around 10 SEK per share, but we find that today's share price still implies a good enough margin of safety to our estimates.

Bull-case assumptions

In our Bull-case we assume that the company can live up to their goal of about 20% annual growth during the next couple of years. In this scenario we estimate that the company will do good acquisitions and thus grow with a rate of around 20% and that the company can sustain their profitability levels and a higher terminal growth.

Bear-case assumptions

In our Bear-case we assume a slower future demand for fiber due to financial distress in the market thus reducing the investments done by the telecom operators and new entrants gaining market share, like Nexans and Draka expanding their offerings. Lower growth, profitability and no acquisitions this give rise to a lower ROIC and lower terminal growth rates.

Internal catalysts for value creation

Hexatronic has stated that they see some cost synergies between them and TD Fibrerptik. If these synergies can be capitalized on this will most likely lead to an improved gross margin going onward, which will increase the cash flows and thus also the value of the company.

Hexatronic's system based offering could lead to a higher market share as the company competes with a better service than their competitors. This could result in a high revenue growth and thus a higher valuation.

The system based offering could lead to higher market share

The growth of infrastructure investment in fiber will be substantially over the coming years. Due to the large need of higher internet capacity, with the reason of changing consumer behaviour. The overall market growth will likely increase the revenue levels of Hexatronic and also the growth rates.

External catalysts

The company aims to list their shares at the Nasdaq Stockholm Small cap. This will increase the possibility for institutional investors to buy the shares of the company. If a more institutional investor is likely to buy the shares of the company a higher valuation might be generated.

Listing on Nasdaq Stockholm could lead to higher valuation levels

Hexatronic, in its present shape, is a relatively new company. We find it likely that a future continued performance of the company will increase the investor awareness and thus enhance the valuation of the company.

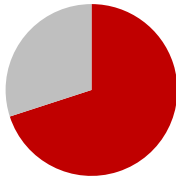
Summary Redeye Rating

The rating consists of five valuation keys, each constituting an overall assessment of several factors that are rated on a scale of 0 to 2 points. The maximum score for a valuation key is 10 points.

Rating changes in the report

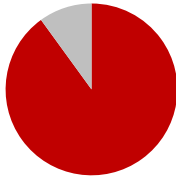
No changes in rating.

Management 7.0p



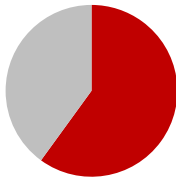
Hexatronic has a strong management team of entrepreneurial people with plenty of skin in the game. CEO and chairman have significant experience from the telecom industry. Staff at other key positions, that joined the group through last year's acquisitions, are also intact. The company has delivered so far on their financial goals but we would like to see further transparency on subsidiary/segment level as Hexatronic's corporate structure becomes more and more complex.

Ownership 9.0p



Top scores in almost all subcategories for our Ownership rating. The entire board and top management have large stakes in the company. Over 50 percent of the shares are held by active owners. The only thing missing in order to get a full score is a large institutional owner as one of the largest shareholders.

Profit outlook 6.0p



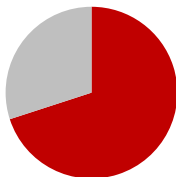
The rating for Growth Outlook is only average, in spite of good overall market prospects. The reason is mainly the competitive situation. Product differentiation appears to be difficult, thus price will always be an issue. Hexatronic is a small player compared to some of the dominant multinational companies. Surely that means growth opportunities but also challenges.

Profitability 5.0p



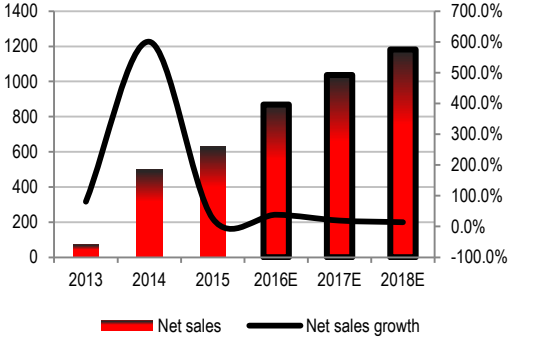
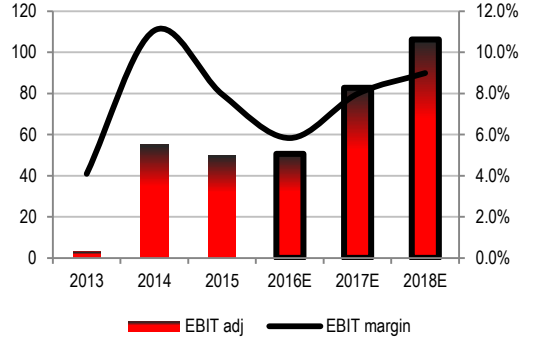
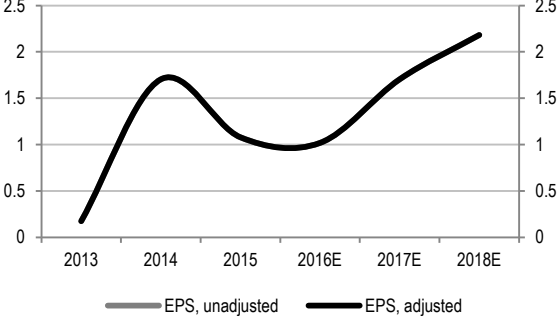
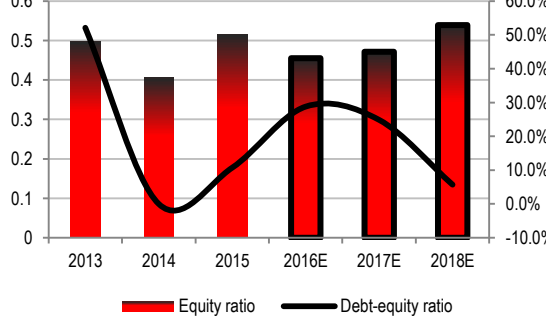
Our rating for profitability is not forward looking and historically, last 3-5 years, profitability has been mediocre. Last year the profitability in terms of margins and Return on Equity was very good (ROE of 66%). This increases our profitability rating for the company compared to before.

Financial strength 7.0p



In our view Hexatronic is very financial stable and scores high in most subcategories for Financial Strength. We see some risks for new rights issues given the strong focus on acquisitions, still if the acquisition is done at good prices and creates value this will not be an issue.

Income statement	13/14	14/15	15/16E	16/17E	17/18E
Net sales	497	627	868	1,036	1,181
Total operating costs	-437	-564	-799	-928	-1,040
EBITDA	60	64	69	108	142
Depreciation	-5	-14	-19	-24	-34
Amortization	0	0	0	-2	-2
Impairment charges	0	0	0	0	0
EBIT	55	50	51	83	106
Share in profits	0	0	0	0	0
Net financial items	-1	-1	-3	-3	-4
Exchange rate dif.	0	0	0	0	0
Pre-tax profit	54	49	48	80	102
Tax	-13	-11	-11	-18	-23
Net earnings	41	37	37	62	80
Balance	13/14	14/15	15/16E	16/17E	17/18E
Assets					
<i>Current assets</i>					
Cash in banks	28	46	43	52	59
Receivables	141	137	217	259	284
Inventories	78	164	208	249	284
Other current assets	7	8	17	21	24
Current assets	255	356	486	580	650
<i>Fixed assets</i>					
Tangible assets	5	43	60	77	65
Associated comp.	0	0	0	0	0
Investments	0	0	0	0	0
Goodwill	0	0	0	0	0
Cap. exp. for dev.	8	82	82	81	79
O intangible rights	0	0	0	0	0
O non-current assets	0	0	0	0	0
Total fixed assets	13	126	142	158	144
Deferred tax assets	0	0	0	0	0
Total (assets)	268	482	628	738	794
Liabilities					
<i>Current liabilities</i>					
Short-term debt	0	0	0	0	0
Accounts payable	54	73	122	145	165
O current liabilities	54	99	104	124	142
Current liabilities	108	172	226	269	307
Long-term debt	0	27	82	87	24
O long-term liabilities	32	0	0	0	0
Convertibles	0	0	0	0	0
Total Liabilities	140	199	308	356	332
Deferred tax liab	0	27	27	27	27
Provisions	19	7	7	7	7
Shareholders' equity	109	249	286	348	428
Minority interest (BS)	0	0	0	0	0
Minority & equity	109	249	286	348	428
Total liab & SE	268	482	628	738	794
Free cash flow	13/14	14/15	15/16E	16/17E	17/18E
Net sales	497	627	868	1,036	1,181
Total operating costs	-437	-564	-799	-928	-1,040
Depreciations total	-5	-14	-19	-25	-36
EBIT	55	50	51	83	106
Taxes on EBIT	-13	-11	-11	-18	-24
NOPLAT	42	39	39	64	83
Depreciation	5	14	19	25	36
Gross cash flow	47	52	58	90	118
Change in WC	-101	-19	-79	-42	-24
Gross CAPEX	-14	-126	-35	-41	-21
Free cash flow	-67	-93	-56	6	73
Capital structure	13/14	14/15	15/16E	16/17E	17/18E
Equity ratio	41%	52%	46%	47%	54%
Debt/equity ratio	0%	11%	29%	25%	6%
Net debt	-28	-19	39	35	-35
Capital employed	81	230	325	383	393
Capital turnover rate	1.9	1.3	1.4	1.4	1.5
Growth	13/14	14/15	15/16E	16/17E	17/18E
Sales growth	601%	26%	38%	19%	14%
EPS growth (adj)	880%	-37%	-6%	67%	28%
DCF valuation					
WACC (%)	10.3 %				
Cash flow, MSEK					
NPV FCF (2016-2018)					-22
NPV FCF (2019-2025)					371
NPV FCF (2026-)					627
Non-operating assets					46
Interest-bearing debt					-27
Fair value estimate MSEK					996
Assumptions 2016-2022 (%)					
Average sales growth	12.3 %				
EBIT margin	9.4 %				
Fair value e. per share, SEK					
Share price, SEK					27.3
					21.8
Profitability	13/14	14/15	15/16E	16/17E	17/18E
ROE	67%	21%	14%	20%	21%
ROCE	83%	26%	16%	21%	24%
ROIC	181%	48%	17%	20%	22%
EBITDA margin	12%	10%	8%	10%	12%
EBIT margin	11%	8%	6%	8%	9%
Net margin	8%	6%	4%	6%	7%
Data per share	13/14	14/15	15/16E	16/17E	17/18E
EPS	1.70	1.08	1.02	1.70	2.18
EPS adj	1.70	1.08	1.02	1.70	2.18
Dividend	0.00	0.00	0.00	0.00	0.00
Net debt	-1.16	-0.56	1.07	0.95	-0.95
Total shares	24.34	34.70	36.48	36.48	36.48
Valuation	13/14	14/15	15/16E	16/17E	17/18E
EV	434.2	336.7	773.1	768.9	699.5
P/E	11.2	10.1	21.4	12.8	10.0
P/E diluted	11.2	10.1	21.4	12.8	10.0
P/Sales	0.9	0.6	0.9	0.8	0.7
EV/Sales	0.9	0.5	0.9	0.7	0.6
EV/EBITDA	7.2	5.3	11.2	7.1	4.9
EV/EBIT	7.9	6.7	15.3	9.3	6.6
P/BV	4.2	1.4	2.6	2.1	1.7
Share performance	13/14	14/15	15/16E	16/17E	17/18E
1 month	14.7 %				32.1 %
3 month	9.6 %				-4.1 %
12 month	102.8 %				-22.7 %
Since start of the year	32.1 %				61.9 %
Shareholder structure %	Capital	Votes			
Gert Nordin	13.9 %	13.9 %			
Goran Nordlund	10.4 %	10.4 %			
Jonas Nordlund	9.8 %	9.8 %			
Erro Holding AB	7.9 %	7.9 %			
Chirp AB	5.3 %	5.3 %			
AIF Clients	4.5 %	4.5 %			
Jovitech Invest AB	3.7 %	3.7 %			
Avanza Pension	3.0 %	3.0 %			
Henrik Larsson Lyon	2.5 %	2.5 %			
Share information					
Reuters code					
List					
Share price					21.8
Total shares, million					33.7
Market Cap, MSEK					734.2
Management & board					
CEO					Henrik Larsson-Lyon
CFO					
IR					
Chairman					Goran Nordlund
Financial information					
Analysts					
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Revenue & Growth (%)	EBIT (adjusted) & Margin (%)
 <p>Net sales (red bars) and Net sales growth (black line) from 2013 to 2018E. Net sales growth peaks in 2014 at approximately 600%.</p>	 <p>EBIT adj (red bars) and EBIT margin (black line) from 2013 to 2018E. EBIT margin peaks in 2014 at approximately 11%.</p>
Earnings per share	Equity & debt-equity ratio (%)
 <p>EPS, unadjusted (grey line) and EPS, adjusted (black line) from 2013 to 2018E. Adjusted EPS shows a steady upward trend.</p>	 <p>Equity ratio (red bars) and Debt-equity ratio (black line) from 2013 to 2018E. Debt-equity ratio peaks in 2013 at approximately 55%.</p>
Sales division	Geographical areas
Conflict of interests	Company description
<p>Kristoffer. Lindstrom owns shares in the company Hexatronic: Yes Henrik. Alveskog owns shares in the company Hexatronic: No</p> <p>Redeye performs/have performed services for the Company and receives/have received compensation from the Company in connection with this.</p>	<p>The Hexatronic group of companies are active in the optical fiber infrastructure market. They offer a complete line of products for passive and complementary active products for optical networks. Home market is Skandinavia and main costumers are large telecom operators such as Telia and Telenor. Partners like ABB and Ericsson give Hexatronic access to the world market.</p>

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Redeye Rating (2016-07-07)

Rating	Management	Ownership	Profit outlook	Profitability	Financial Strength
7,5p - 10,0p	42	42	19	7	17
3,5p - 7,0p	69	61	91	35	44
0,0p - 3,0p	6	14	7	75	56
Company N	117	117	117	117	117

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